Assignment 4

 (page 434 #12)

1. Co. A has a debt-to-firm-value ratio of 30% and an equity-to-firm-value ratio of 70%. The required rate of return on equity of Co. A is 15% while the long-term borrowing rate is 10%. Co. A’s marginal tax rate is the statutory rate of 40%. Calculate its after-tax weighted average cost of capital.

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